Report from Rio by Lorenzo Carrasco Bazúa

Back on the debt treadmill

The new deal with the banks increases capital flow out of the country and aggravates the internal debt crisis.

The June 22 debt renegotiation deal with Brazil's private creditors reschedules amortization payments on $63.6 billion of Brazil's medium- and long-term debt obligations with foreign banks. The agreement will cost Brazil an additional $5.8 billion in new debt, just to cover interest arrears.

The deal marks the definitive end of the moratorium decreed in February 1987, and Brazil's return to the old colonial model associated with former finance minister Delfim Netto: exporting almost twice as much as the country imports and using the trade surplus to service the foreign debt. Such export pushes are done at the cost of severe reductions in domestic production, incomes, and vital government investment.

Brazil is expected to rack up a trade surplus of over $13 billion this year, 80% of which will used for debt service. Paulo Nogueira Batista, Jr. of the Getulio Vargas Foundation observed June 25 that Brazil will again be transferring 5% of its Gross Domestic Product abroad for debt reparations, as it did during the 1983-85 recession.

Some analysts here claim the new debt deal is in many respects identical to the one worked out in 1984 by Delfim Netto which, they say, was supposed to be signed by the civilian government when it was sworn in in April 1985.

But, the latest agreement includes two new tricks of the international financial oligarchy. First, it imposes the World Bank as the guarantor of $3.55 billion of the $5.8 billion of "new" money. This $3.55 billion will only be disbursed if the Brazilian government meets World Bank economic guidelines. This new World Bank role as supervisor over the Brazilian economy only reinforces the conditionalities of the International Monetary Fund, to which the final $600 million of the new package are pegged.

The second aspect, and perhaps the most serious one, is the clear intention of the agreement to convert the $5.8 billion in new foreign debt into internal debt.

To accomplish this, the agreement specifies that the creditor banks may convert $1.8 billion of their new loans into domestic investments in Brazil, at face value, during the next three years. To understand the magnitude of this concession by the Brazilian government to the banks, one need only look at Brazil's foreign debt paper, currently selling on the secondary markets at half of nominal value. Banks will be allowed to engage in such debt-for-equity swaps in addition to the existing swaps, which are being done through public auction on the Brazilian stock exchanges.

William Rhodes, the Citibank vice president who chaired the bank advisory committee, revealed the creditors' appetite for converting worthless debt paper into juicy pieces of Brazil. "The menu of options is the most extensive and innovative since the debt crisis began in 1982," he boasted. Wall Street agreed; shares of all major banks shot up the day after the debt deal was signed. That is partly because of the appetizing menu and partly because Brazilian Finance Minister Mailson da Nóbrega announced that he would use $1.6 billion of trade surplus to pay off 1987 and 1988 interest arrears. That means $1.6 billion more profits than the bankers expected.

The new deal in effect offers $5.8 billion in "new" money for payment of interest arrears, in exchange for the Brazilian government giving foreign creditors about the same amount in domestic currency, the cruzado, for buying assets in Brazil. This injection of liquidity will in turn swell the speculative capital markets. Much of the dollar debts converted into cruzados at a roughly 25% discount via the stock market auctions is immediately reconverted to dollars on the black market and drained out of the country. The rest flows into the domestic speculative markets, already bloated with $60 billion worth of cruzados.

What private businessman wants to build more plants, when consumer spending is more than 15% below last year's level, and the government is triaging its own necessary infrastructure investments? So, most Brazilian companies are putting their own capital into the merry-go-round of overnight money markets. These speculations revolve around Brazilian government floating debt in cruzados, now almost as big as its foreign debt.

The government justifies its surrendering the moratorium and granting immense economic concessions to its creditor banks by peddling the illusion that good relations with creditors will bring vast inflows of foreign capital for the investments Brazil needs for its future growth and to help the government keep the internal debt bubble from exploding. But illusions can kill, as millions of Brazilians, who have seen their living standards shrink by 15% this year, may soon discover.

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